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Legislative Audit Division

State of Montana

Report to the Legislature

March 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Montana Arts Council

This report contains an unqualified opinion and one recommendation relating to noncompliance with section 2-18-703(2), MCA.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

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James Gillett, Financial-Compliance Audit

March 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for two fiscal years ended June 30, 2003. The report contains one recommendation where the council could enhance compliance with state law. The council's written response to the audit is included in the back of the report.

We thank the Executive Director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2003

Montana Arts Council

Members of the audit staff involved in this audit were Danielle Gamradt, Brenda Kedish, Amber Long, and Paul O'Loughlin.

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Appointed and Administrative Officials

Montana Arts Council			Term Expires
	Bill Frazier (Chair)	Big Timber	2005
	Jennifer Earle Seifert	Troy	2005
	Marilyn Olson	Sidney	2005
	Linda Reed	Helena	2005
	Mary O. Crippen	Billings	2007
	Delores Heltne	Havre	2007
	John Dudis	Kalispell	2007
	Betti Hill	Helena	2008
	Kari Lee Knierim	Glasgow	2005
	Ann Cogswell	Great Falls	2008
	Rick Halmes	Billings	2008
	Neal Lewing	Polson	2007
	Stan Lynde	Helena	2008
	Jackie Parsons	Browning	2008
	Mark Tyers	Bozeman	2007
Administrative Officials	Arlynn Fishbaugh	Executive Director	
	Carleen Layne	Accountant	

Introduction

This audit report is the result of our financial-compliance audit of the Montana Arts Council for the two fiscal years ended June 30, 2003. The recommendation in this report is related to noncompliance with section 2-18-703(2), MCA.

We issued an unqualified opinion on the financial schedules contained in this report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

The listing below summarizes the recommendation contained in the report, indicates where the issue is presented in the report, and provides a reference to the council's response.

Recommendation #1

We recommend the council pay the group benefit contribution for permanent part-time employees in accordance with state law 3

Council response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2003. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine the status of prior audit recommendations.
4. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2003.

The report contains one recommendation to the council. Areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

Background

The Montana Arts Council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is authorized to accept gifts and donations to carry out the functions of the council and is designated as the official agency of the state to receive and disburse funds made available by the National Endowment for the Arts. The council is responsible for the governance, management, and control of staff hired to perform its mission. The council's duties are to:

1. Encourage the study and presentation of the arts statewide.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife are designed to expose Montanans to their artistic and cultural heritage. Grants, fellowships, technical assistance, and networking efforts help support both individual artists and art and cultural organizations.

The council has five sources of funding, including: federal grants from the National Endowment for the Arts (NEA), investment earnings from its Cultural Trust Fund, Percent for Arts allocations from appropriations for construction of state buildings, private grants, and the General Fund. General Fund support was $318,495 and $650,458 in fiscal years 2003 and 2002, respectively. The council had 8.5 full-time equivalent positions in fiscal year 2002-03.

Section 15-35-108(6), MCA, allocates investment income, excluding unrealized gains and losses, from the Cultural Trust Fund for the protection of art in the state capitol and for cultural and aesthetic projects. The trust fund's corpus must remain intact and increases by 0.63 percent of annual coal severance tax revenue.

Cultural and Aesthetic (C&A) grants are available to cultural organizations and units of state, local, and tribal governments. The council provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a prioritized grant list to the legislature for funding. The legislature determines which organizations will receive grants, and the council awards the money as specified by the legislature. The 56th Legislature in 2001 approved funding for cultural and aesthetic projects in the 2003 biennium totaling approximately $931,130.

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 2001. The audit report contained four recommendations. The council implemented all four recommendations.

Findings and Recommendations

Noncompliance with State Law

During our audit period the council had two permanent part-time employees who were receiving the state group benefit contribution for health insurance premiums. Section 2-18-703 (2), MCA, states "…. Permanent part-time, seasonal part-time, and temporary part-time employees who are regularly scheduled to work less than 20 hours a week are not eligible for the group benefit contribution." We noted one of these part-time employees worked an average of 14 hours per week during fiscal year 2003 and an average of 11 hours per week during fiscal year 2002. Employees who routinely work less than 20 hours per week are not eligible to enroll in the State Employee Benefit Plan. The council paid approximately $8,846 in insurance contributions for this employee.

The council stated they paid the group benefit contribution because the employee was scheduled to work an average of 20 hours per week. The employee was hired to work 20 hours per week, but due to unanticipated health problems was no longer able to work the 20 hours scheduled.

Recommendation #1

We recommend the council pay the group benefit contribution for permanent part-time employees in accordance with state law.

Independent Auditor's Report & Council Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the fiscal years ended June 30, 2003, and 2002. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for each of the fiscal years ended June 30, 2003, and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

December 22, 2003

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES AND PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2002	$ (97,350)	$ 347,924	$ 0	$ 4,505,915
ADDITIONS				
Budgeted Revenues & Transfers-In	9,182	314,131	617,851	
NonBudgeted Revenues & Transfers-In	95	60,443		628,781
Prior Year Revenues & Transfers-In Adjustments			(8,575)	
Direct Entries to Fund Balance	403,430	197,102		47,062
Total Additions	412,707	571,676	609,276	675,843
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	318,495	811,121	609,276	
NonBudgeted Expenditures & Transfers-Out		60,342		314,131
Total Reductions	318,495	871,463	609,276	314,131
FUND BALANCE: June 30, 2003	$ (3,138)	$ 48,137	$ 0	$ 4,867,627

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES AND PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2001	$ (71,282)	$ 361,603	$ 0	$ 0	$ 4,182,041
ADDITIONS					
Budgeted Revenues & Transfers-In	8,001	325,355	507,096		
NonBudgeted Revenues & Transfers-In	128	2,415			433,428
Direct Entries to Fund Balance	616,261	(3,937)			195,801
Additions to Property Held in Trust				136	
Total Additions	624,390	323,833	507,096	136	629,229
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	650,458	269,767	505,033		
NonBudgeted Expenditures & Transfers-Out		104,579			305,355
Prior Year Expenditures & Transfers-Out Adjustments		(36,834)	2,063		
Reductions in Property Held in Trust				136	
Total Reductions	650,458	337,512	507,096	136	305,355
FUND BALANCE: June 30, 2002	$ (97,350)	$ 347,924	$ 0	$ 0	$ 4,505,915

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	$ 39	$ 120			$ 159
Charges for Services	9,182				9,182
Investment Earnings		2,698		$ 628,781	631,479
Miscellaneous	56	21			77
Grants, Contracts, Donations and Abandonments		57,604			57,604
Other Financing Sources		314,131			314,131
Federal			$ 609,276		609,276
Total Revenues & Transfers-In	9,277	374,574	609,276	628,781	1,621,908
Less: Nonbudgeted Revenues & Transfers-In	95	60,443		628,781	689,319
Prior Year Revenues & Transfers-In Adjustments			(8,575)		(8,575)
Actual Budgeted Revenues & Transfers-In	9,182	314,131	617,851		941,164
Estimated Revenues & Transfers-In	4,059	329,000	487,500		820,559
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 5,123	$ (14,869)	$ 130,351	$ 0	$ 120,605
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	$ 5,123				5,123
Other Financing Sources		$ (14,869)			(14,869)
Federal			$ 130,351		130,351
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 5,123	$ (14,869)	$ 130,351	$ 0	$ 120,605

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	$ 73	$ 70			$ 143
Charges for Services	8,001				8,001
Investment Earnings		3,402		$ 367,428	370,830
Miscellaneous	55	43			98
Grants, Contracts, Donations and Abandonments		(59,589)		66,000	6,411
Other Financing Sources		383,844			383,844
Federal			$ 507,096		507,096
Total Revenues & Transfers-In	8,129	327,770	507,096	433,428	1,276,423
Less: Nonbudgeted Revenues & Transfers-In	128	2,415	0	433,428	435,971
Actual Budgeted Revenues & Transfers-In	8,001	325,355	507,096	0	840,452
Estimated Revenues & Transfers-In	4,059	369,000	487,500		860,559
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,942	$ (43,645)	$ 19,596	$ 0	$ (20,107)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	$ 3,942				3,942
Other Financing Sources		$ (43,645)			(43,645)
Federal			$ 19,596		19,596
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,942	$ (43,645)	$ 19,596	$ 0	$ (20,107)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	PROMOTION OF THE ARTS
Personal Services	
Salaries	$ 309,410
Other Compensation	2,495
Employee Benefits	82,847
Total	394,752
Operating Expenses	
Other Services	115,649
Supplies & Materials	15,085
Communications	31,226
Travel	43,189
Rent	23,890
Repair & Maintenance	384
Other Expenses	16,782
Total	246,205
Grants	
From State Sources	730,218
From Federal Sources	428,059
Total	1,158,277
Transfers	
Accounting Entity Transfers	314,131
Total	314,131
Total Expenditures & Transfers-Out	$ 2,113,365
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	$ 318,495
State Special Revenue Fund	871,463
Federal Special Revenue Fund	609,276
Permanent Fund	314,131
Total Expenditures & Transfers-Out	2,113,365
Less: Nonbudgeted Expenditures & Transfers-Out	374,473
Actual Budgeted Expenditures & Transfers-Out	1,738,892
Budget Authority	1,868,023
Unspent Budget Authority	$ 129,131
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	$ 31,382
State Special Revenue Fund	91,558
Federal Special Revenue Fund	6,191
Unspent Budget Authority	$ 129,131

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	PROMOTION OF THE ARTS
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	$ 291,070
Other Compensation	2,950
Employee Benefits	77,381
Total	371,401
Operating Expenses	
Other Services	196,168
Supplies & Materials	41,212
Communications	38,314
Travel	41,625
Rent	21,591
Repair & Maintenance	1,574
Other Expenses	18,699
Total	359,183
Grants	
From State Sources	459,367
From Federal Sources	305,115
Total	764,482
Transfers	
Accounting Entity Transfers	305,355
Total	305,355
Total Expenditures & Transfers-Out	$ 1,800,421
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	$ 650,458
State Special Revenue Fund	337,512
Federal Special Revenue Fund	507,096
Permanent Fund	305,355
Total Expenditures & Transfers-Out	1,800,421
Less: Nonbudgeted Expenditures & Transfers-Out	409,934
Prior Year Expenditures & Transfers-Out Adjustments	(34,771)
Actual Budgeted Expenditures & Transfers-Out	1,425,258
Budget Authority	1,969,528
Unspent Budget Authority	$ 544,270
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	$ 2,615
State Special Revenue Fund	521,688
Federal Special Revenue Fund	19,967
Unspent Budget Authority	$ 544,270

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Arts Council
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2003

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its governmental funds category (General, State Special Revenue, Federal Special Revenue, and Permanent). In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the council to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the council receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Council State Special Revenue Funds include the Cultural and Aesthetic Projects account, Percent of Art account, and the Lila Wallace grant account.

Federal Special Revenue Fund – to account for federal funds received by the council to administer the council's grants from the National Endowment for the Arts.

Permanent Fund – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the council's programs. In fiscal year 2001 this activity was reported under the Nonexpendable Trust Fund. The council uses this fund for the Cultural and Aesthetic Trust Fund and Sigerson Fellowship Exhibit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The council has authority to pay obligations from the statewide General Fund within its appropriation limits. It expends cash or other assets from the statewide fund when it pays General Fund obligations. The council's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2003, and June 30, 2002.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, and Permanent funds include entries generated by the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) to reflect the flow of resources within individual funds shared by separate agencies.

4. Grants, Contracts, Donations, and Abandonments Revenue

In fiscal year 2000-01 the council received $167,000 of grant funds from the Lila Wallace Reader's Digest Fund and recorded the funds as revenue in the State Special Revenue Fund. This revenue should have been deferred, because cash was received prior to eligible expenditures being incurred. During fiscal year 2002, the council attempted to correct this error, but made the adjustment to current year revenues rather than prior year. Therefore, the fiscal year 2002 grants, contracts, donations, and abandonments revenue is understated by $59,589 in the State Special Revenue Fund.

Council Response

MONTANA ARTS COUNCIL

Boosting local economies, revitalizing communities and improving education through the arts

JUDY MARTZ
GOVERNOR

316 NORTH PARK AVENUE
CITY-COUNTY BUILDING, ROOM 252

STATE OF MONTANA

(406) 444-6430
FAX: (406) 444-6548

PO BOX 202201
HELENA, MONTANA 59620-2201
mac@state.mt.us
www.art.state.mt.us

February 20, 2004

RECEIVED
FEB 2 4 2004
LEGISLATIVE AUDIT DIV.

TO: Scott Seacat
Legislative Auditor

FROM: Arlynn Fishbaugh
Executive Director

RE: Review of FY 2003 audit recommendations and agency response

Per our response to the last two agency audits, I wish to again commend you on the overall cordiality and helpfulness of your staff. We have especially appreciated their willingness to understand the operations and intricacies of our agency. We always appreciate the opportunity to be more efficient and effective in our overall operations. We do use these audits as learning experiences and always continue to improve our practices at the agency.

We have reviewed the audit recommendation and concur with it. Below is our position, contemplated corrective action and timetable for implementation.

Recommendation #1
We recommend the council pay the group benefit contribution for permanent part-time employees in accordance with state law.

We hired this employee per the vacancy announcement with the understanding that workload was uneven and that the hours would equal half time over the course of a 12-month period. The time records reflect that for the first 8 months of employment, the employee was in fact working at least 20 hours per week. In October of 2001, an unexpected health problem occurred and the employee had very little leave time accrued and began to work less than 20 hours per week. Because of the original agreement and because we had no idea the health problems would be so long-lasting, we fully expected that the hours would amount to half-time over the course of the year. The employee was 172 hours short of that goal by the end of her first year of employment. We continued to pay the insurance because we always believed the time would be made up and the employee would in fact work an average of half time over the course of the year.

We would like to clarify that the average hours worked per week shown by your staff are on a fiscal year basis. This employee actually worked an average of 17 hours per week for the first 12-month period from her hire date (February of 2001) and 14 hours per

week for the second 12-month period from her hire date. As your staff can document from the payroll information provided, she had returned to a 40-hour-plus bi-weekly schedule as of June 27, 2003. This information will be provided to your staff to be reviewed for accuracy before the committee meets.

It is our understanding that this is not an accounting error, but a misinterpretation of an administrative rule, which appears to conflict with state law. We are in communication with the Department of Administration for clarification of same.

This was a very unusual situation, which we do not expect to ever occur again. In the future we will document any employment conditions, which vary from the norm in writing. We do not have a staff member dedicated to Personnel matters, so we work with another Department's Personnel officer to help us with these issues. We have had a subsequent health issue with an employee since this one and have handled the leave and benefits according to state law.

In closing, the Montana Arts Council would like to acknowledge the agency accountant, Carleen Layne, who has done an excellent job in overseeing the agency's fiscal area. In addition to single-handedly knowing every accounting area that other agencies have several people in charge of, she also serves as the centralized services administrator, personnel officer and policy advisor to the director. The Arts Council relies on her excellent performance and thanks her for her fine work in the large, complex scope and voluminous detail required in her position.